

Message Text

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14-11

ACTION NEA-06

INFO OCT-01 SS-14 ISO-00 EB-03 IO-03 NSC-05 NSCE-00 INR-05

CIAE-00 OMB-01 IGA-01 SP-02 L-01 /042 W

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P 210835Z MAY 75

FM AMEMBASSY DACCA

TO SECSTATE WASHDC PRIORITY 6816

C O N F I D E N T I A L DACCA 2489

LIMDIS

E.O. 11652: GDS

TAGS: EFIN, EAID, EAGR, BG

SUBJECT: BANGLADESH DEVALUES: STABILIZATION PROGRAM

REF: A. DACCA 2421; B. DACCA 2479

1. AS OF MAY 21, BDG HAS REACHED AD REFERENDUM AGREE-
MENT ON STABILIZATION PROGRAM WITH IMF TEAM HERE.
WHILE FORMAL LETTER TO IMF MANAGING DIRECTOR WITTEVEEN
DESCRIBING BDG PROGRAM NOT RPT NOT YET SIGNED, WE ARE
NOW RPT NOW REASONABLY SURE LETTER/STABLIZATION
PROGRAM CONTAINS MOST, IF NOT ALL, FOLLOWING ELEMENTS:

(A) BDG REQUEST FOR DRAWING OF SDR 62.5 MILLION
(SECOND AND THIRD TRANCHES) AS ONE-YEAR STANDBY
AGREEMENT;

(B) BDG REQUEST FOR IMF SUPPORT IN APPROACHING
DONORS FOR INCREASED ASSISTANCE FLOWS IN FY 1976;

(C) LIBERALIZATION/REMOVAL OF ELEMENTS FOREIGN
EXCHANGE CONTROLS AND SUBSIDIES, INCLUDING FURTHER
STEPS (BEYOND THOSE ANNOUNCED AT TIME DEVALUATION) TO
END PRE-DEVALUATION SYSTEM OF MULTIPLE EXCHANGE RATES;

(D) IMPORT LIBERALIZATION, DESIGNED ABOVE ALL
BRING IN RAW MATERIALS AND SPARES IN ORDER ENABLE
INDUSTRIES TO UTILIZE FULLY PRESENT CAPACITY, INCLUDING:

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(I) EARLY ANNOUNCEMENT OF IMPORT LEVELS FOR

NEXT 6-MONTH SHIPPING PERIOD;

- (II) GRANTING IMPORTERS ENTITLEMENTS (WHICH PRECEDE LICENSES) ON ANNUAL RATHER THAN SEMI-ANNUAL BASIS;
- (III) EXTENDING VALIDITY OF IMPORT LICENSES FROM SIX MONTHS (AS AT PRESENT) TO, SAY, NINE;
- (IV) RELATING GRANTING IMPORT LICENSES TO ACTUAL UTILIZATION OF CAPACITY;
- (V) REVIEW OF ROLE AND MANAGEMENT OF STATE-OWNED TRADING CORPORATION OF BANGLADESH;
- (VI) LIBERALIZING ALLOCATION OF FOREIGN EXCHANGE FOR CONSUMER ITEMS (E.G. AUTO PARTS) ON BASIS BROAD CATEGORIES, RATHER THAN SPECIFIC ITEMS.

(E) ANTI-INFLATIONARY MEASURES TO LIMIT DEMAND, INCLUDING MOST IF NOT ALL OF FOLLOWING:

- (I) CONTINUED CRY IT SQUEEZE BEGUN OCTOBER, 1974, WHICH HALTED LOANS TO FINANCE HOLDING OF STOCKS BY TRADERS;
- (II) CONTINUED BDG WAGE RESTRAINT;
- (III) CONTINUED TIGHT CONTROL ON DEFICIT FINANCING; AND
- (IV) STRICTEST LIMITS ON OVERALL GROWTH OF CREDIT INCLUDING COMMERCIAL BANK ADVANCES, NET CENTRAL BANK CREDIT TO BDG, ALLOWING FOR OUTSTANDING FOREIGN BILLS.

(F) FURTHER ANTI-INFLATION MEASURES TO IMPROVE SUPPLY SIDE, INCLUDING:

- (I) RATIONALIZATION OF TAX SYSTEM, DESIGNED TO INCREASE RESPONSIVENESS OF REVENUE COLLECTIONS TO GROWTH OF NATIONAL INCOME BY BROADENING TAX BASE AND REPLACING SPECIFIC WITH AD VALOREM EXCISE DUTIES WHEREEVER FEASIBLE;

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- (II) MEASURES TO IMPROVE EFFICIENCY OF PUBLIC SECTOR INDUSTRIES.

2. ASSUME US AGENCIES CONCERNED WILL SHORTLY RECEIVE COPIES OF BDG LETTER TO IMF FROM OFFICE OF US EXECUTIVE DIRECTOR.
BOSTER

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Message Attributes

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